

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 7781**

**BILL NUMBER:** SB 400

**NOTE PREPARED:** Feb 26, 2007

**BILL AMENDED:** Feb 26, 2007

**SUBJECT:** Basic Workforce Skills Training.

**FIRST AUTHOR:** Sen. Ford

**FIRST SPONSOR:**

**BILL STATUS:** 2<sup>nd</sup> Reading - 1<sup>st</sup> House

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State

**Summary of Legislation:** (Amended) *Basic Skills Training Course Tax Credit*: The bill provides a tax credit against certain state taxes for expenditures made by an employer to pay or reimburse an employee for the costs of tuition and fees for basic skills education and training.

*Workforce Skill Advancement Project*: The bill establishes Workforce Skill Advancement Project (Project), a program to assess an individual's basic occupational skills and to provide remedial training if the assessment uncovers deficiencies in the individual's occupational skills. It provides that the Department of Workforce Development shall administer the Project and that an individual who seeks unemployment benefits shall participate in the Project.

**Effective Date:** (Amended) January 1, 2007 (retroactive); Upon passage; July 1, 2007.

**Explanation of State Expenditures:** (Revised) *Basic Skills Training Course Tax Credit*: Department of State Revenue (DOR): The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the new tax credit for basic skills training course expenses. The bill also requires the DOR to certify to the DWD within 90 days of the end of the fiscal year the name of each taxpayer awarded a tax credit and the total amount credits claimed on tax returns processed during the preceding fiscal year. (Note: The bill makes this requirement of the Department of Insurance with respect to credits against the Insurance Premiums Tax.) The DOR's current level of resources should be sufficient to complete these tasks.

Department of Workforce Development (DWD): The bill establishes the Basic Skills Training Course Tax Credit Program to DWD. The tax credit is for an employer's expenses for tuition and fees paid for an

employee to obtain basic skills training. The bill requires the DWD to determine qualifications for receipt of tax credits, the tax credit amount a taxpayer may receive, and the tuition and regularly assessed fees that are eligible for the tax credit. The bill also requires the DWD to audit each taxpayer to ensure that his or her employees have completed the requirements that qualify the taxpayer for the tax credit.

Tax Credit Cost Reimbursement: The bill requires the DWD to make annual transfers from two funds to the state General Fund to reimburse the cost of the tax credit. The bill limits the amount of tax credits that may be awarded in FY 2008 and FY 2009. In FY 2008, the bill limits the total credits DWD may award to \$5 M. In FY 2009, the bill limits the total credits DWD may award to \$2.5 M plus any amount allowed but not awarded in FY 2008. The bill requires an amount equal to 50% of the credit cost to be transferred from the Skills 2016 Fund to the state General Fund, with the remaining 50% of the credit cost to be transferred from the Special Employment and Training Services Fund. The bill requires the transfer to be made by June 30<sup>th</sup> preceding the fiscal year in which the tax credits are to be awarded by DWD. The amount of the transfer is to be based on an estimate of tax credits to be awarded. The tax credit estimate and transfer of funds for FY 2008 is to be completed between July 1, 2007, and September 1, 2007. Any deficiency or excess in the transfer for a fiscal year would be reconciled in the following fiscal year. A total of \$2.5 M could potentially be required from each fund in FY 2008. If the maximum amount of credits are awarded by DWD in FY 2008, a total of \$1.25 M from each fund could potentially be required in FY 2009. (See *Explanation of State Revenues* for a discussion of the tax credit and its revenue impact.) The FY 2006 ending balance in the Skills 2016 Training Fund was about \$50.0 M, with the balance as of February 23, 2007, totaling about \$44.9 M. The FY 2006 ending balance in the Special Employment and Training Services Fund was about \$265.4 M, with the balance as of February 23, 2007, totaling about \$26.4 M.

*Workforce Skill Advancement Project:* The bill establishes Workforce Skill Advancement Project and requires the DWD to administer the Project. The Project is funded with set asides from existing funds available from the following sources: (1) the Wagner-Peyser Act, (2) the Workforce Investment Act, and (3) the Skills 2016 Training Fund. The bill requires the General Assembly to determine the amount of funding from each source. There are no data to indicate the cost of the Project. The FY 2006 ending balance in the Skills 2016 Training Fund was about \$50.0 M, with the balance as of February 23, 2007, totaling about \$44.9 M. The Workforce Investment Act Fund had a negative ending balance (-\$604,000) in FY 2006, with the balance as of February 23, 2007, totaling about \$8.9 M. The amount of funds that may be available relating to the Wagner-Peyser Act is unknown.

Under the bill, an individual who applies for unemployment insurance and wants to work in a different occupational area than the area in which the individual is employed must participate in a “work keys” skills assessment for the new occupational area. The “work keys” is a three stage standardized employability skills assessment tool implemented by DWD. The bill requires the individual to participate in a skill remediation component for each occupational area in which the individual’s skill levels are deficient, as determined by the work keys skill assessment. Regional workforce boards along with local elected officials are required to develop a plan of short-term training options and placement assistance for participants in the Project. The bill requires the DWD, in consultation with the regional boards and the workforce investment boards, to develop a policy under which an individual who is eligible for unemployment insurance and is not job attached may be exempt from the requirements of the Project if it poses a hardship to the individual. The regional boards may allow a temporarily unemployed individual to participate in the Project. The bill requires the regional boards to annually submit program status reports to the DWD. The bill also requires the DWD to compile these reports and submit them to the General Assembly. The February 26, 2007, state vacant position report indicates that the DWD has 193 vacant full-time positions.

**Explanation of State Revenues:** (Revised) *Basic Skills Training Course Tax Credit:* This bill establishes the nonrefundable Basic Skills Training Course Tax Credit which could potentially reduce state revenue from the Adjusted Gross Income (AGI) Tax, the Financial Institutions Tax, and the Insurance Premiums Tax. The tax credit is effective only for tax years 2007 and 2008 with fiscal year limits on the amount of credits DWD may award. In FY 2008, the bill limits the total credits DWD may award to \$5 M. In FY 2009, the bill limits the total credits DWD may award to \$2.5 M plus any amount allowed but not awarded in FY 2008. Potentially, the DWD could award \$7.5 M in credits during the FY 2008-FY 2009 period. The revenue loss from the tax credit could potentially begin in FY 2008.

*Background:* The bill establishes a tax credit for employers approved by the DWD that pay costs of tuition and regularly assessed fees for basic skills training obtained by an employee. The bill requires, in addition, that the employee achieve a GED or high school equivalent degree or a skill level gain in mathematics, reading, or computer literacy. The tax credit may be claimed against the AGI Tax, Sales and Use Tax, Financial Institutions Tax, and Insurance Premiums Tax liability. The credit is equal to the lesser of 50% of the employer's tuition expenses, \$500, or the balance of credits that have not been applied toward the costs of another basic skills training course. The bill limits the total amount of credits an individual employer may receive in a year to \$50,000, and limits total credits awarded by DWD to a maximum of \$7.5 during the FY 2008-FY 2009 period. The aggregate limit would provide for maximum \$500 tax credits for expenses relating to 15,000 employees over the two-year period.

The tax credits are nonrefundable and may not be carried back or carried forward. If the taxpayer is a pass through entity and does not have a tax liability, the credits could be taken by shareholders, partners, or members of the pass through entity in proportion to their distributive income from the pass through entity. Since the credits are effective beginning in tax year 2007, the fiscal impact could potentially begin in FY 2008.

Revenue from the Individual AGI Tax is distributed to the state General Fund (86%) and the Property Tax Replacement Fund (14%). Revenue from the Corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of Workforce Development; Department of State Revenue; Department of Insurance; Workforce Investment Board; Regional Workforce Boards.

**Local Agencies Affected:**

**Information Sources:**

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